

Message Text

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ACTION NEA-10

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INR-07 INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04

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E.O. 11652: GDS

TAGS: ENRG MASS UK IR

SUBJ: UK-GOI ARMS FOR OIL BARTER

REF: (A) TEHRAN 11582, (B) TEHRAN 10606

1. BEGIN SUMMARY: UK'S BRITISH AIRWAYS CORPORATION (BAC) SIGNED FIRST CONTRACTS WITH GOI'S NATIONAL IRANIAN OIL COMPANY (NIOC) AND MINISTRY OF WAR FOR OIL BARTER FOR SUPPLY OF RAPIER MISSILES VALUED AT POUND STERLING 400 MILLION. NIOC'S INSISTENCE THAT OIL COMPANY INVOLVED BE LARGE ENOUGH TO GENERATE ADEQUATE CASH FLOW AND AGREEMENT ON CONCEPT OF ADDITIONALITY MADE FOR PROTRACTED NEGOTIATIONS. IN THE END, NIOC'S POSITION APPARENTLY FULLY PROTECTED. OIL TO BE LIFTED WILL MOVE AT ABOUT 35 CENTS PER BARREL DISCOUNT FROM OPEC MARKET PRICE. END SUMMARY

2. BRITISH EMB DCM HERE HAS PROVIDED EMB WITH SOME ADDITIONAL DETAILS ON BARTER DEAL BETWEEN UK AND GOI SIGNED NOV 18 AND REPORTED REF A. SOURCES SAID THAT ACTUALLY TWO CONTRACTS, ONE BETWEEN BRITISH AIRWAYS CORPORATION AND NIOC AND THE OTHER CONFIDENTIAL

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BETWEEN BAC AND GOI'S MINISTRY OF WAR, WERE SIGNED. A THIRD

DOCUMENT, TERMED A MEMORANDUM OF UNDERSTANDING, WAS SIGNED CREATING UK-GOI JOINT VENTURE IRANO-BRITISH DYNAMICS (TO BE BASED IN SHIRAZ). EVENTUALLY THE FIRM WOULD SIGN TWO REMAINING CONTRACTS NECESSARY TO COMPLETE THE ENTRIE TRANSACTION.

3. SOURCE SAID THAT A MAJOR HURDLE AT THE OUTSET, AND ONE THAT PERSISTED THROUGHOUT MOST OF THE NEGOTIATIONS, WAS NIOC'S INSISTENCE THAT THE OIL COMPANY INVOLVED BE ONE LARGE ENOUGH TO PLACE THE OIL. ONLY SHELL OR BRITISH PETROLEUM MET NIOC'S CRITERIA AS REGARDS SIZE IN TERMS OF GENERATING A SIGNIFICANT CASH FLOW TO MAKE THE BARTER DEAL VIABLE. A NUMBER OF SMALLER COMPANIES WERE RULED OUT FARLY SOON AND HMG'S GUARANTEE THAT SHELL WOULD DELIVER ON THE LIFTINGS DID IN THE END CONVINCE NIOC.

4. A SECON STICKING POINT WAS ON THE CONCEPT OF ADDITIONALITY. NIOC WAS ADAMANT THROUGHOUT THE NEGOTIATIONS THAT ALL OIL LIFTED UNDER THE BARTER BE IN ADDITION TO THE CONSORTIUM'S OFF-TAKE FROM NIOC. THE BARTER OIL WOULD ALSO HAVE TO BE SOLD IN IRAN'S NON-TRADITIONAL MARKETS. APPARENTLY, PROVISIONS IN THE SIGNED DOCUMENTS FULLY PROTECT NIOC IN THIS RGARD.

5. SOURCE NOTED THAT BAC AND ITS SUBCONTRACTORS HAVE ENTIRELY DIFFERENT CASH FLOW PROBLEMS THAN DOES SHELL - I.E., IMMEDIATE CASH REQUIREMENT BY BAC ALTHOUGH PAYMENT WILL NOT BE MADE FOR OIL LIFTED UNTIL 45-60 DAYS AFTER DELIVERY. TO MEET BAC'S CASH REQUIREMENT, MINISTRY OF WAR WILL ADVANCE BAC POUND STERLING 15 MILLION FROM ITS OWN BUDGET. THIS SUM WILL BE PAID BACK TO MINISTRY AS SOON AS BAC IS REIMBURSED BY SHELL FOR THE OIL DELIVERY.

6. SOURCE DESCRIBED MINISTRY OF ECONOMIC AFFAIRS AND FINANCE AND MINISTRY OF WAR OFFICIALS AS HELPFUL AND RESPONSIVE THROUGHOUT. NIOC NOT NECESSARILY UNHELPFUL, MERELY INSISTENT THAT ITS RIGHTS BE FULLY PROTECTED. THE FIRST OIL WILL BE LIFTED IN DECEMBER AND THE RAPIER MISSILES DELIVERED OVER A 3-YEAR PERIOD.

7. SOURCE CONFIRMED THAT MANAGEMENT FEE, ACCRUING TO BAC,
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BUT IN FACT PASSED ON TO SHELL, IS TWO PERCENT OF THE VALUE OF CONTRACT - I.E., TWO PERCENT OF POUND STERLING 400 MILLION (SEE PARA 1 REF B). TAKEN TOGETHER WITH TWENTY-TWO PERCENT-PER-BARREL DISCOUNT FROM OPEC MARKET PRICE, DISCOUNT FROM OPECT PRICE WORKS OUT TO ABOUT 35 CENTS PER BARREL.
HELMS

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